**Before the**
**Federal Communications Commission**
**Washington, D.C. 20554**

| | | |
|---|---|---|
| In the Matter of | ) | |
| | ) | |
| Connect America Fund | ) | WC Docket No. 10-90 |
| | ) | |
| A National Broadband Plan for Our Future | ) | GN Docket No. 09-51 |
| | ) | |
| High-Cost Universal Service Support | ) | WC Docket No. 05-337 |

**NOTICE OF INQUIRY AND NOTICE OF PROPOSED RULEMAKING**

**Adopted: April 21, 2010** **Released: April 21, 2010**

**Comment Date: (60 days from publication in the federal Register)**
**Reply Comment Date: (90 days from publication in Federal Register)**

**Comments of: Wheat State Telephone, Inc.**
**Udall, Kansas**

**Archie Macias**
**General Manager**
**Wheat State Telephone Company**
**106 West First Street, P.O. Box 320**
**Udall, Kansas 67146-0320**
**Telephone (800) 442-6835**
**Fax (888) 278-1945**

**July 12, 2010**

## I. INTRODUCTION

Wheat State Telephone, Inc. ("Wheat State") submits these comments in response to the Federal Communications Commission's ("FCC") Notice of Inquiry and Notice of Proposed Rulemaking, FCC 10-58, "In the Matter of Connect America Fund", WC Docket No, 10-90, "A National Broadband Plan for Our Future", GN Docket No. 09-51, and "High-Cost Universal Service Support", WC Docket 05-337 ("Order").

Wheat State believes that the goals within the National Broadband Plan ("NBP") are admirable. However, the means of achieving these goals include initiatives that are a major concern for the rural Incumbent Local Exchange Carriers ("ILECs"). Most rural ILECs have already implemented broadband within their service areas, or are in the process of completing projects for broadband. Wheat State has operated in Udall, Kansas since 1950. We serve six rural exchanges in central Kansas; two to the southeast of Wichita and four to the Northeast. Wheat State provides service using a combination of fiber and copper facilities. All trunk and loop plant to our "city" customers is provisioned over fiber. The majority of the company's rural copper is over 20 years old and is due to be upgraded and/or replaced. We are currently planning on investing $12 million using fiber-to-the-home ("FTTH") technology over the next 3 years.

The initial costs of implementing these broadband networks and the ongoing costs of maintaining these broadband networks are being indirectly supported by the existing universal service programs that generally provide approximately fifty percent of the recovery of loop cost in rural service areas. To this end, rural ILECs believe the objectives established under the existing universal service support program are being achieved and only minimal changes are necessary to modify the universal service program to address the FCC's broadband initiatives outlined in its NBP. These initiatives address both broadband availability in unserved areas and recommendations for targeted upload and download speeds as defined by the FCC in the NBP. Wheat State understands the importance of broadband availability in its study area; hence our proposed project to get fiber to each home. However, Wheat State can only continue to build, upgrade and maintain its existing multi-use voice and broadband network with continued support from universal service support mechanisms or potentially from the FCC's proposed broadband support mechanism referred to as the Connect America Fund ("CAF").

Wheat State is specifically addressing the following key question from Paragraph 53 of the Order:

**"To the extent that any commenter believes that these proposals, or the proposal to cap legacy high-cost support, would negatively affect affordable voice services for customers today, we would encourage such a commenter to identify all assumptions and to provide data, including information on network investment plans over the next five years, and free cash flows to support that position".**

Wheat State includes with these comments supporting financial documentation that demonstrates how the proposed changes to legacy Universal Service Fund ("USF") programs are not favorable for the continuance of universal service in rural areas without sufficient replacement support and may jeopardize the financial viability of Wheat State Telephone, Inc.

## II. BACKGROUND

As of December 31, 2009, Wheat State served 2,105 one-party residential, single-line and multi-line business lines, including 86 Life-line customers, in the south central portion of the State of Kansas from our office in Udall. We have a staff of 20 employees, offer wireline voice services, cable television and broadband services. Wheat State provides broadband services to our customers using ADSL technology, and is capable of providing speeds up to 6.0 Mbps to 95% of our customers. In order to continue to provide reliable services to our customers, we plan to extend fiber further into our network with our FTTH project where we plan to offer 25 Mbps to the consumers in our service area. FTTH will enable Wheat State to adapt our broadband speeds to future levels as yet to be determined by the FCC, but we are targeting 100 Mbps as customer demand increases and fiber is built to the anchor institutions within our communities.

Wheat State's service territory includes 6 local exchanges that cover approximately 750 square miles. The largest exchange is Udall, Kansas with 806 access lines and the smallest is Matfield Green with 63 lines. The Matfield Green exchange is located in the heart of the spacious Flint Hills, cattle country where the livestock typically outnumber the customers 150 to 1. Wheat State serves approximately 1,821 households and businesses (based on aged census data), for a density of 2.43 units per square mile, with 91 miles of buried fiber and 583 miles of buried cable of which 423 miles are planned to be replaced with buried fiber by fourth quarter 2012. Wheat State utilizes a Siemens DCO switch, is Communication Assistance to Law Enforcement Act

("CALEA") compliant, and meets all of the requirements of an Eligible Telecommunications Carrier ("ETC"), including the high cost obligation of being the Carrier of Last Resort ("COLR").

Wheat State is responsive to the needs of our customers and takes pride in providing quality voice and data services that meet the needs of our customers. With most of our employees residing in our service territories we are particularly sensitive to customer service. Our customers literally are our neighbors.

The information provided in our comments is based on our anticipated loan request for the $12 million to fund the FTTH project. High Cost Loop Fund ("HCLF") projections reflect NECA's anticipated National Average Cost per Loop ("NACPL")[1]. This information is calculated using current rules which was subsequently adjusted to include the proposed changes as outlined in the Notice of Inquiry for the NBP.

## III. REVENUE SOURCES

Wheat State received its 2009 revenues from the following sources: our end user customers, including local exchange line and vertical services, End User Common Line ("EUCL"), Federal End User Charge ("FUSC"), State USF Surcharge, Internet, Network Access billed to Carriers, NECA pool settlements, resold Long Distance and Miscellaneous Revenue, state USF and federal high cost support which includes Local Switching Support ("LSS"), Interstate Common Line Support ("ICLS"), and High Cost

[1] Forecasted/projected NACPL amounts were provided by NECA on June 4, 2010 and are based on the assumption that the Rural Growth Factor would decrease by 3.5% per year.

Loop ("HCL") revenue. The EUCL, LSS, and ICLS support amounts are actually part of interstate revenue requirement.

Based on the year end 2009 access lines of 2,105, the 2009 revenue per line, per month for the above sources is as follows:

| 2009 Revenue Source | 2009 Monthly Amount Per Line | % Of Total |
|---|---|---|
| End User | $49.30 | 23% |
| Network Access | 28.24 | 44% |
| Long Distance and Miscellaneous | 13.19 | 14% |
| State USF Support | 29.75 | 13% |
| Federal USF Support | 96.42 | 6% |
| Total | 216.90 | 100% |

Combined state and federal USF support is $126.17 per line, per month or 58% of Wheat State's average revenue per line. Exhibit I, "*2009 Monthly Revenue Source per Line*", provides a pie chart for this information and also includes the chart's supporting information.

Exhibit I also shows the anticipated effect on company revenues in 2015 from the proposed phase down of federal USF support and access revenues at 10% per year. It is anticipated that Wheat State's access lines will decrease to 1,622 by 2015. The proposed changes to the existing revenue sources are anticipated to produce the following revenue per line, per month:

| 2015 Revenue Source | 2015 Monthly Amount Per Line | % of Total |
|---|---|---|
| End User | $ 56.78 | 14% |
| Network Access | 18.28 | 5% |
| Long Distance and Miscellaneous | 13.18 | 6% |
| State USF Support | 38.52 | 11% |
| Federal USF Support | 62.42 | 17% |
| Unknown to Stay Whole (CAF?) | 159.37 | 47% |
| Total | 348.55 | 100% |

For the year 2015, projected NBP total state and federal USF support is $100.94 per line, per month or 28% of projected revenue per line. The 2015 revenue shortfall between "Current Rules" and the NBP is $159.37 per line per month, or 47% that will need to be supported from unknown sources for Wheat State to maintain the quality voice and data services that is expected by our customers.

Exhibit II, "*Comparison of Current ICLS Projection vs. Frozen at 2010 Levels Per Line*", provides a bar chart and supporting information to display the comparison of ICLS revenues between our current projections and the ICLS amounts anticipated using the FCC's NBP proposal, frozen at the 2010 level of $425.00 per line. ICLS represents the recovery of interstate network loop costs that are maintained even when lines are lost. As the lines decrease, the disparity between unfrozen ICLS revenues and ICLS revenues frozen at the 2010 level of support per line will grow from $39,525 in 2011 to $193,346 by 2016; with an accumulated reduction in ICLS revenues of $691,614 over the 6 year period.

Another concern for Wheat State is that ICLS is the "residual component" of the common line revenue requirement. If access lines continue to decline, the revenue from EUCL charges ($6.50 res. and $9.20 bus. per line) will also decline, so more of the common line revenue requirement will be expected to come from the explicit support mechanism of ICLS.

## IV. COMPARISON OF END USER RATES

Based on 2009 levels and assuming that all 2,105 lines subscribe to local, internet and long distance services, Wheat State received on average $80.09 per month, per line. As previously shown, Exhibit I indicates end user revenue at $49.30, but this excludes long distance revenue which is stated separately for that exhibit. For purposes of comparing Wheat State end user rates to others, we excluded the miscellaneous revenue portion, and adjusted the internet revenue to an amount per user based on 1,077 current DSL customers.

Exhibit III, "*Monthly Revenue Shortfall from Covering Expenses at Comparable Rural/Urban/Wireless End User Benchmark Rates*", provides a comparison between the amount from Wheat State's broadband enabled end users of $80.09 to an actual AT&T urban voice-line statement of $80.43 and an actual Sprint wireless statement of $69.24. Using Wheat State's 2010 total company expenses less special access and miscellaneous revenue, the per-line, per month expense amount that would not be recovered with end user revenue would be $121.73 at Wheat State's revenue per line rate; $121.38 at the urban wireline rate; and $132.58 at the wireless rate. This shortfall does not include an amount for a return on investment.

The information provided in Exhibit III demonstrates that even with prices based on Wheat State's current end user rates and a potential increase in broadband customers to 80% penetration level, the revenue generated by Wheat State's end users will not be sufficient to cover the expenses necessary to provide quality services in our rural area. We also show that when compared to an urban wireline rate or a wireless rate, Wheat State's rates already exceed urban rates and cannot be raised higher or they will be farther from being comparable as required by the Act.[2]

## V. INVESTMENTS FOR BROADBAND

Wheat State's FTTH project anticipates a 100% loan. Exhibit IV, "*Projected Regulated Net Investment*", reflects a bar chart that provides anticipated net investments and includes capital expenditures from the FTTH loan that is included in rate base. The loan design anticipates receiving sufficient high cost support from existing high-cost programs to support the repayment of the loan.

The financial information for the loan design includes amounts for HCL, LSS and ICLS under current USF rules. Estimating future HCL support has always been difficult as the NACPL has been a "best guess" amount. In past projections of HCL support, our consultants, Warinner, Gesinger and Associates, LLC ("WGA") estimated the NACPL at $453.81 for payment year 2011 and increased this by $32.50 per year through 2016 to

[2] Telecom Act of 1996.

$616.31. The National Exchange Carrier Association ("NECA") in June 2010, for the first time, released its estimate of the projected NACPL for the 2011 payment year at $464.78 and adjusted the capped pool amounts for the decrease of 3.5% in the annual rural growth factor, resulting in an estimated NACPL of $743.74 by 2015.

Wheat State has serious concerns that the HCL support under current rules, with NECA's estimated changes to the NACPL will be sufficient for rural LECs as required by the Act. Wheat State believes the FCC needs to increase high-cost funding in order to meet the goals of the NBP and stay within the objective of the Act calling for sufficiency. The FCC may be able to do this by immediately addressing the contribution methodology and ensuring that all users of the voice and broadband networks are contributing based on the services used.

## VI. COMPARISON OF PROJECTED HIGH COST LOOP SUPPORT

As shown on Exhibit V, "*Projected High Cost Loop Support*", the decrease in anticipated HCL support revenues accumulates to $663,680 through 2016. This is based on the difference between the NACPL estimated by WGA versus that estimated by NECA, which is included on Page 2 of the exhibit. Exhibit V also depicts the impact of freezing Wheat State's support per line at the 2010 level, which may be comparable to any phase-down process the FCC may propose. Wheat State's loan design is based on WGA's estimated NACPL, which is considerably lower than NECA's estimates.

## VII. CASH FLOW PROJECTION

Presented in Exhibit VI, "*Cash Flow Projection*", is information related to projected cash-flow from operations through 2016, comparing our proposed FTTH project with high-cost support based on current rules to the impact of the proposals associated with the NBP changes. The decrease in cash-flow for 2010 and 2011 "Current Rules" is directly related to the increase in the NACPL which reduces the amount of anticipated HCL support. Once the FTTH investment is reflected, under current rules, in 2013 the cash flow returns to positive projections.

Under the "NBP Cash Flow" analysis, revenues were adjusted as follows: (1) ICLS revenues were frozen at the 2010 support per line amount (see Exhibit II) and (2) HCL support, state and federal access revenues were phased down by 10% per year. Without changes to offset the increase in the NACPL and the reduction in access rates, Wheat State's cash-flow will remain negative going from $500K in 2010 to $1.8 million in 2016. These negative cash flow projections make it very difficult to justify the much needed upgrades as indicated in the NBP. Wheat State believes in the goals expressed in the NBP but under the mechanism as outlined in the Plan the goals are unobtainable for Wheat State Telephone.

## VIII. OPINION SUMMARY

Wheat State's revenue is generated from end users, connecting carriers and universal service support (Exhibit I). Even if local rates are set at comparable rates to an urban landline provider or a wireless provider, the revenues generated on Wheat State lines will not cover our operating expenses (Exhibit III).

Wheat State presents the financial documentation to the FCC to support our opinion that the proposals to cap the legacy high-cost support at 2010 levels, and phase-out the legacy high-cost funding by 2020 will negatively affect the affordable and dependable voice and data services for our customers. It is important for the FCC to ensure that any replacement support will be adequate to support the goals of universal service. To date, we have no way of anticipating what the new support mechanism may be; but seriously question the FCC's plan to move our company's support determined using rate of return regulation and legacy USF programs.

Wheat State respectfully requests that the FCC consider the potentially harmful impacts imposed on rural companies from its changes to legacy USF support mechanisms as the FCC adopts policies that may cap the legacy high-cost programs or replace it with the CAF. As our financial information demonstrates, Wheat State serves a high-cost area and to achieve the universal service goal of affordable, comparable rates, Wheat State requires USF or CAF at levels which will be sufficient to maintain affordable quality services to our customers.

If the proposals, as set forth by the FCC in the Notice of Proposed Rulemaking are implemented without an adequate and sustainable revenue replacement, Wheat State may lack the ongoing financial resources necessary to provide high quality affordable telephone and broadband services in the high-cost areas of rural Kansas.

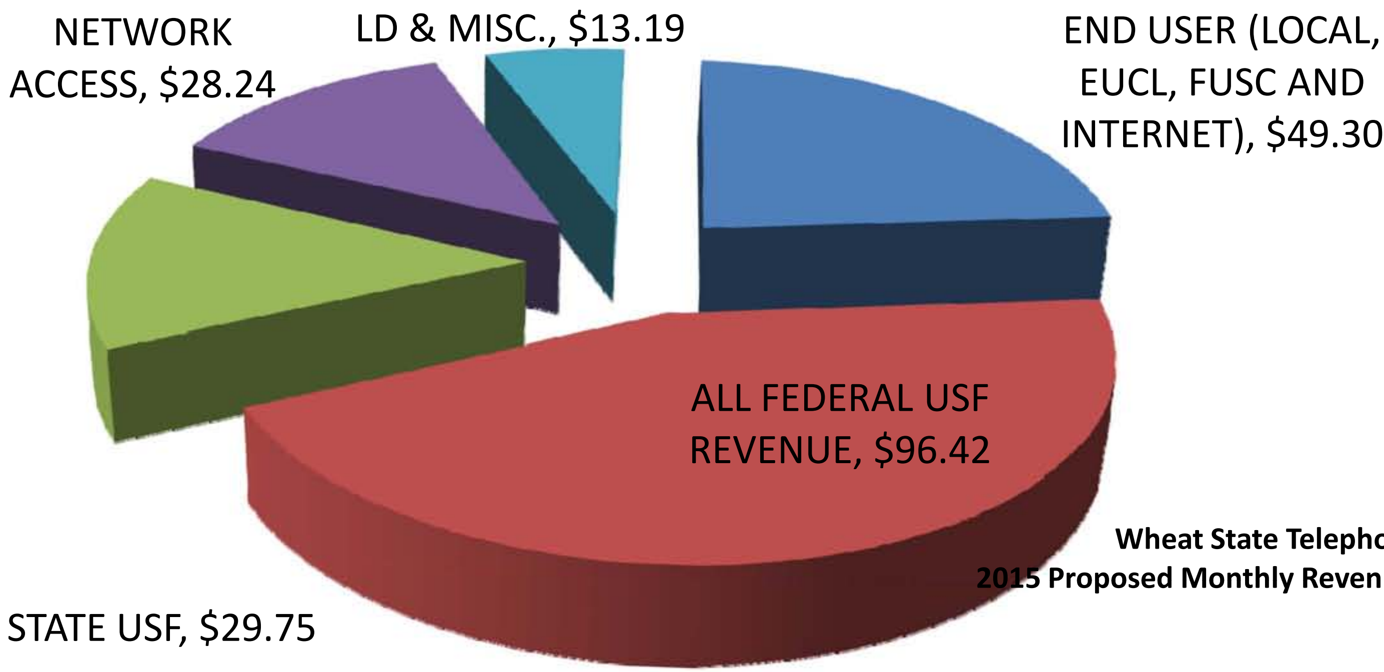
Respectfully submitted

/s/ Archie Macias

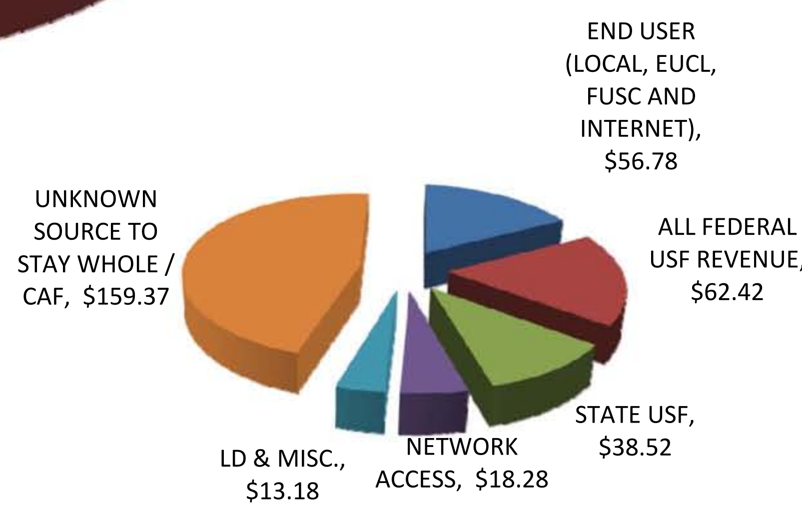
Archie Macias
General Manager
Wheat State Telephone Company
106 West First Street, P.O. Box 320
Udall, Kansas 67146-0320
Telephone (800) 442-6835
Fax (888) 278-1945

Filed via ECFS

# Wheat State Telephone, Inc.
# 2009 Monthly Revenue Source Per Line



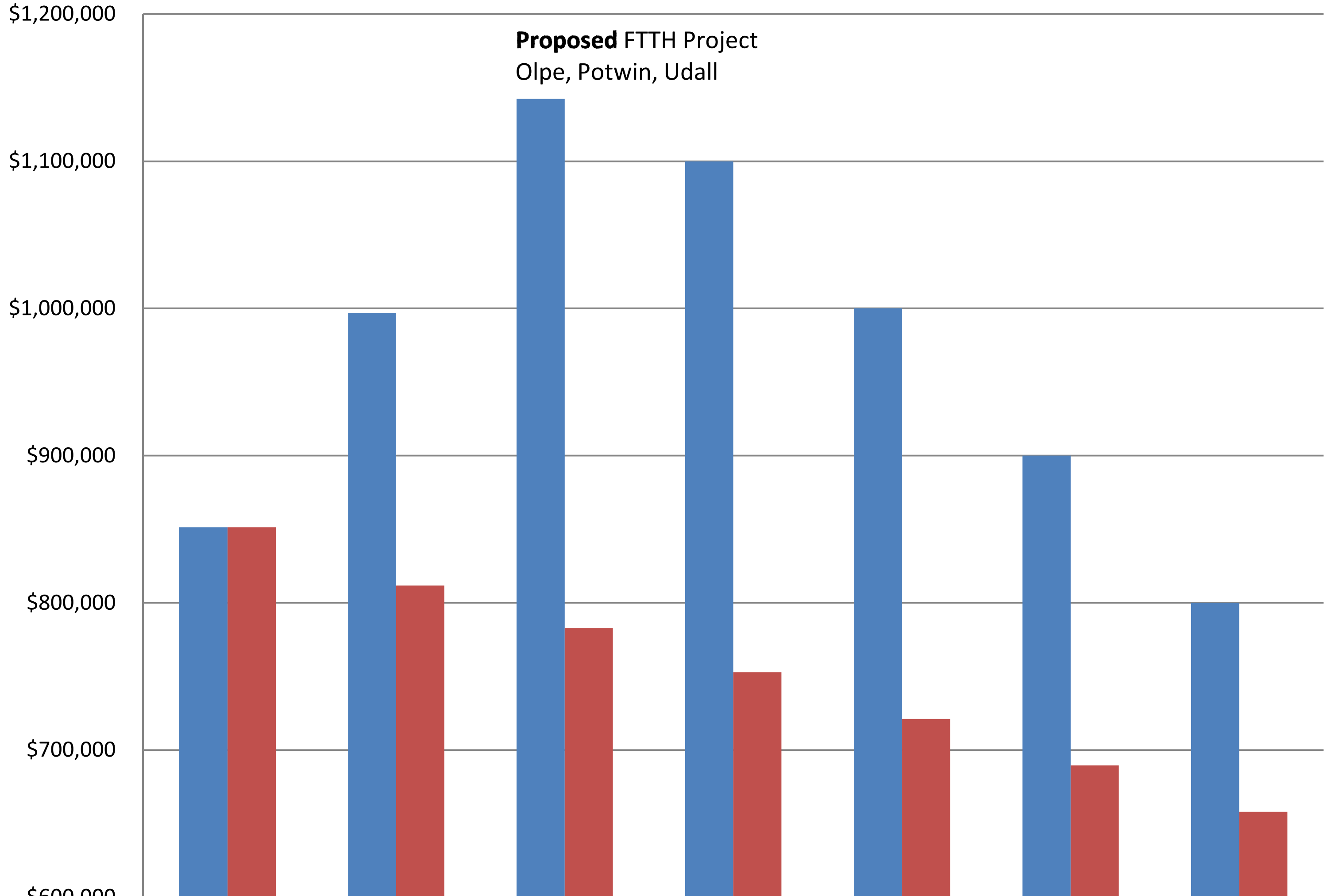

## Wheat State Telephone, Inc.
## 2015 Proposed Monthly Revenue Source Per Line



**Current Rules Cash Flow**

| | | | PER BOOKS 2009 AUDIT | PERCENT | | | |
|---|---|---|---|---|---|---|---|
| PER AUDIT - CONSOLIDATED | | | | | | | |
| | Operating Revenues | | | | | | |
| | | Local network services | $ 578,810 | 10.59% | | | |
| | | Network access services | 4,142,375 | 75.78% | | | |
| E (CR) | EBITI | Long distance services | 383,848 | 7.02% | | | |
| | | Internet services | 412,657 | 7.55% | | | |
| | | Miscellaneous revenue (Incl Uncollectibles) | (51,554) | -0.94% | | | |
| | | | $ 5,466,136 | 100.00% | | | |
| | | | 2009 | | | 2015 | |
| GROUPING TO SHOW USF COMBINED: | | | | | | | |
| | END USER (LOCAL, EUCL and INTERNET) | | $ 1,242,445 | 22.73% | | 1,105,131 | 30.0% |
| | ALL FEDERAL USF REVENUE (ICLS, HCL, LSS) | | 2,429,903 | 44.45% | | 1,214,952 | 33.0% |
| | STATE USF | | 749,776 | 13.72% | | 749,776 | 20.4% |
| | NETWORK ACCESS & DSL ACCESS | | 711,718 | 13.02% | | 355,859 | 9.7% |
| | LD & MISC. | | 332,294 | 6.08% | | 256,548 | 7.0% |
| | | | $ 5,466,136 | 100.00% | | 3,682,266 | 100.00% |
| | 2009 ACCESS LINES | | 2,100 | | | 1,622 | |
| **AVERAGE MONTHLY REVENUE PER ACCESS LINE** | | | | | | | |
| | | END USER (LOCAL, EUCL, FUSC AND INTERNET) | $ 49.30 | 22.73% | $ | 56.78 | 16.3% |
| | | ALL FEDERAL USF REVENUE | $ 96.42 | 44.45% | $ | 62.42 | 17.9% |
| | | STATE USF | $ 29.75 | 13.72% | $ | 38.52 | 11.1% |
| | | NETWORK ACCESS | $ 28.24 | 13.02% | $ | 18.28 | 5.2% |
| | | LD & MISC. | $ 13.19 | 6.08% | $ | 13.18 | 3.8% |
| | | UNKNOWN SOURCE TO STAY WHOLE / CAF | | | $ | 159.37 | 45.7% |
| | | | $ 216.91 | 100.00% | $ | 348.56 | 100.00% |

## Wheat State Telephone, Inc.
## Comparison of Current ICLS Projection vs. Frozen at 2010 Levels Per Line

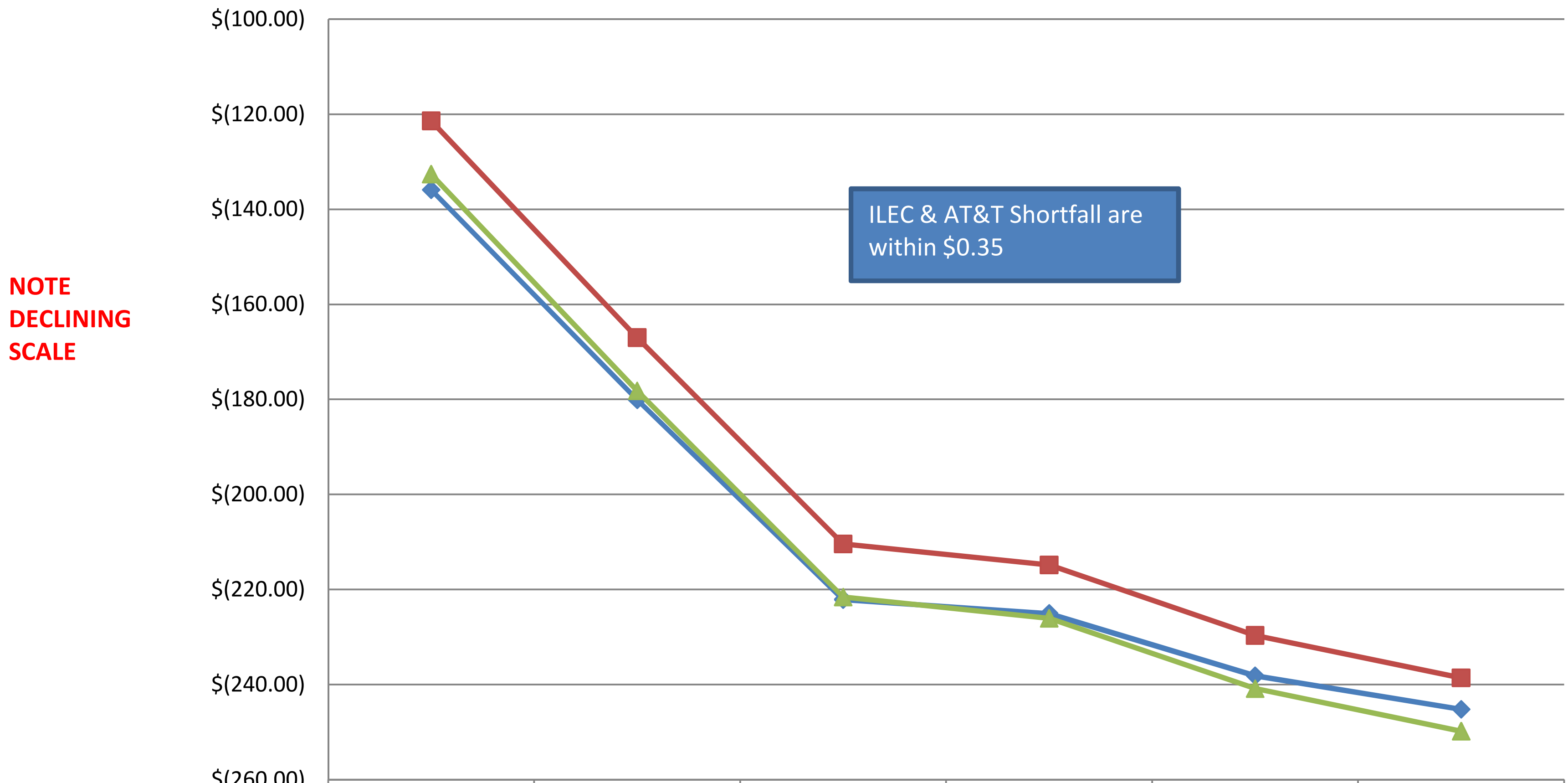



| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|
| Projected ICLS (unfrozen): | $851,273 | $996,858 | $1,142,442 | $1,100,000 | $1,000,000 | $900,000 | $800,000 |
| ICLS - frozen @ 2010 Per Line Amt | $851,273 | $811,748 | $782,848 | $752,787 | $721,167 | $689,547 | $657,927 |

**Wheat State Telephone, Inc.**
**IMPACT OF NATIONAL BROADBAND PROPOSAL ON ICLS**
Current Rules Cash Flow
A. Impact Resulting from Freezing Rural ILEC ICLS Per Line @ 2010 Level

| NECA DR | Line | Description | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 23 | 1 | Historical & Projected Annual ICLS (unfrozen): | $ 897,330 | $ 903,160 | $ 860,644 | $ 851,273 | $ 996,858 | $ 1,142,442 | $ 1,100,000 | $ 1,000,000 | $ 900,000 | $ 800,000 |
| E (CR) | (based on CR pr | Projected Retail Voice Lines: | 2,270 | 2,166 | 2,100 | 2,003 | 1,910 | 1,842 | 1,771 | 1,697 | 1,622 | 1,548 |
| Calc | 3 | ICLS Support Per Line- Unfrozen (Ln 1 / Ln 2) | 395.30 | 416.97 | 409.83 | 425.00 | 521.91 | 620.22 | 621.02 | 589.32 | 554.71 | 516.77 |
| Calc | 4 | ICLS Support Per Line- Frozen at 2010 levels: | | | | 425.00 | 425.00 | 425.00 | 425.00 | 425.00 | 425.00 | 425.00 |
| Calc | 5 | ICLS Annual Support - frozen (Ln 2 x Ln 4) | | | | 851,273 | 811,748 | 782,848 | 752,787 | 721,167 | 689,547 | 657,927 |
| Calc | 6 | Difference in ICLS Support- Frozen versus Actuals (Ln5 - Ln 1): | | | | - | (185,109) | (359,594) | (347,213) | (278,833) | (210,453) | (142,073) |
| Calc | 7 | Difference in ICLS Per Line- Frozen versus Actuals (Ln6 / Ln 2): | | | | | (96.92) | (195.22) | (196.03) | (164.32) | (129.71) | (91.77) |
| Calc | 8 | Projected ICLS Amounts - Difference between being frozen per line at 2010 verses Projected Financial Data: | | | | | $ (39,525) | $ (68,425) | $ (98,486) | $ (130,106) | $ (161,726) | $ (193,346) |

# Wheat State Telephone, Inc.
## Monthly Revenue Shortfall from Covering Expenses at Comparable Rural/Urban/Wireless End User Benchmark Rates
## (Does NOT Include any Return on Rate Base)




| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|
| AT ILEC'S RATES | $(135.93) | $(180.07) | $(222.13) | $(225.07) | $(238.17) | $(245.22) |
| AT AT&T'S RATES | $(121.38) | $(166.99) | $(210.39) | $(214.85) | $(229.66) | $(238.60) |
| AT SPRINT'S WIRELESS RATES | $(132.58) | $(178.18) | $(221.59) | $(226.04) | $(240.85) | $(249.79) |

**Wheat State Telephone, Inc.**
**Comparison of End User Rates - Urban vs. Rural vs. Wireless**
**Current Rules Cash Flow**

**ESTIMATES OF MONTHLY REVENUE PER LINE NEEDED FROM USF/CAF USING RATE COMPARISON SCENARIOS AND 100% BROADBAND TAKE RATE**

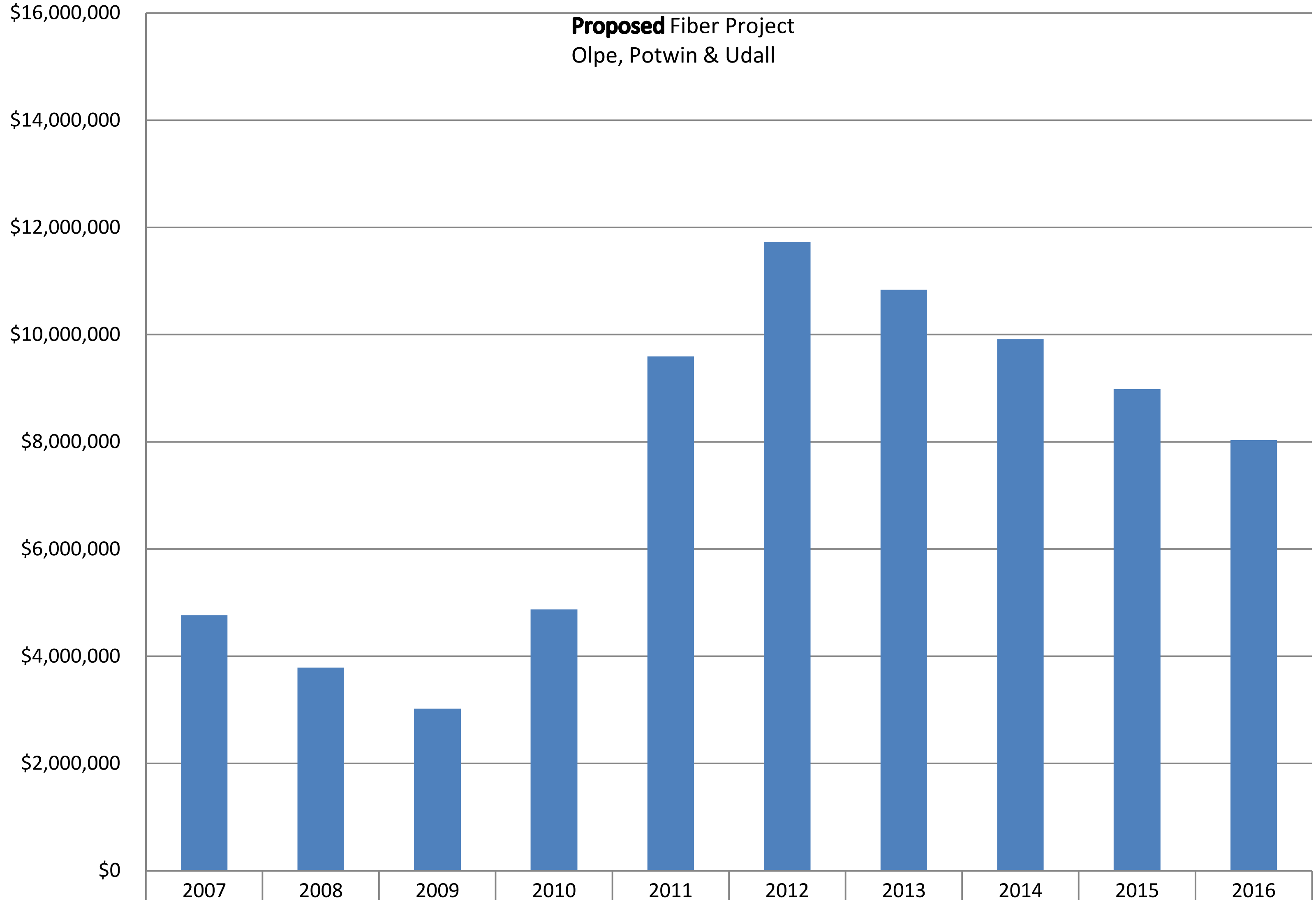
| | | ESTIMATED REVENUE PER YEAR USING COMPARATIVE RATE SCENARIO BELOW | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| NUMBER OR RETAIL SUBSCRIBER LINES ASSESSED CHARGES | 2,100 | 2,003 | 1,910 | 1,842 | 1,771 | 1,697 | 1,622 | 1,548 |
| NUMBER OF DSL SUBSCRIBERS | 1,077 | 1,112 | 1,148 | 1,185 | 1,223 | 1,263 | 1,303 | 1,345 |
| **ILEC'S AVERAGE MONTHLY CHARGES BILLED TO END USERS** | | | | | | | | |
| LOCAL REVENUE | $ 22.97 | $ 552,074 | $ 526,441 | $ 507,699 | $ 488,130 | $ 467,734 | $ 447,062 | $ 426,684 |
| EUCL | 7.02 | $ 168,767 | $ 160,931 | $ 155,202 | $ 149,219 | $ 142,984 | $ 136,665 | $ 130,436 |
| FUSC | 1.93 | $ 46,472 | $ 44,314 | $ 42,736 | $ 41,089 | $ 39,372 | $ 37,632 | $ 35,917 |
| STATE END USER - USF SURCHARGE | 1.00 | $ 24,147 | $ 23,026 | $ 22,206 | $ 21,350 | $ 20,458 | $ 19,554 | $ 18,663 |
| LONG DISTANCE | 15.23 | $ 366,118 | $ 349,119 | $ 336,690 | $ 323,712 | $ 310,186 | $ 296,477 | $ 282,963 |
| INTERNET | 31.93 | $ 426,067 | $ 439,861 | $ 454,038 | $ 468,671 | $ 483,777 | $ 499,369 | $ 515,463 |
| TOTAL | $ 80.09 | $ 1,583,645 | $ 1,543,692 | $ 1,518,570 | $ 1,492,171 | $ 1,464,510 | $ 1,436,758 | $ 1,410,125 |
| IF AT AT&T RATES - COMPLETE CHOICE ENHANCED (1) | | | | | | | | |
| LOCAL REVENUE INCLUDING VERTICAL SERVICES | $ 31.00 | $ 745,116 | $ 710,520 | $ 685,224 | $ 658,812 | $ 631,284 | $ 603,384 | $ 575,881 |
| EUCL | 5.30 | $ 127,391 | $ 121,476 | $ 117,151 | $ 112,636 | $ 107,929 | $ 103,159 | $ 98,457 |
| FUSC | 0.81 | $ 19,469 | $ 18,565 | $ 17,904 | $ 17,214 | $ 16,495 | $ 15,766 | $ 15,047 |
| STATE END USER - USF SURCHARGE | 0.09 | $ 2,163 | $ 2,063 | $ 1,989 | $ 1,913 | $ 1,833 | $ 1,752 | $ 1,672 |
| LONG DISTANCE Assumed the Same | 15.23 | $ 366,118 | $ 349,119 | $ 336,690 | $ 323,712 | $ 310,186 | $ 296,477 | $ 282,963 |
| INTERNET | 28.00 | $ 673,008 | $ 641,760 | $ 618,912 | $ 595,056 | $ 570,192 | $ 544,992 | $ 520,150 |
| TOTAL | $ 80.43 | $ 1,933,265 | $ 1,843,503 | $ 1,777,870 | $ 1,709,342 | $ 1,637,919 | $ 1,565,530 | $ 1,494,170 |
| IF AT SPRINT WIRELESS RATES - EVERYTHING DATA w/1500 SHARED MINUTES (1) | | | | | | | | |
| EVERYTHING DATA PLAN CHARGE | $ 64.99 | $ 1,562,100 | $ 1,489,571 | $ 1,436,539 | $ 1,381,167 | $ 1,323,456 | $ 1,264,965 | $ 1,207,306 |
| EUCL | 0.00 | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| FUSC | 4.25 | $ 102,153 | $ 97,410 | $ 93,942 | $ 90,321 | $ 86,547 | $ 82,722 | $ 78,951 |
| STATE END USER - USF SURCHARGE | 0.00 | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| LONG DISTANCE | INCL | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| INTERNET | INCL | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| TOTAL | $ 69.24 | $ 1,664,253 | $ 1,586,981 | $ 1,530,481 | $ 1,471,488 | $ 1,410,003 | $ 1,347,687 | $ 1,286,258 |
| TOTAL ILEC EXPENSES | | $ 5,077,744 | $ 5,897,834 | $ 6,655,337 | $ 6,502,274 | $ 6,541,600 | $ 6,436,552 | $ 6,454,486 |
| ASSUME 2009 SPECIAL ACCESS & MISC REVENUE | | 226,896 | 226,896 | 226,896 | 226,896 | 226,896 | 226,896 | 226,896 |
| **ILEC'S PROJECTED ANNUAL EXPENSES LESS SPECIAL ACCESS REVENUE(2)** | | $ 4,850,848 | $ 5,670,938 | $ 6,428,441 | $ 6,275,378 | $ 6,314,704 | $ 6,209,656 | $ 6,227,590 |
| **USF/ICC REVENUE GAP - ANNUAL AMOUNT NEEDED TO COVER EXPENSES (3)** | | | | | | | | |
| AT ILEC'S RATES PER END USER | | $ (3,267,202) | $ (4,127,246) | $ (4,909,871) | $ (4,783,207) | $ (4,850,193) | $ (4,772,897) | $ (4,817,465) |
| AT AT&T'S RATES PER END USER | | (2,917,583) | (3,827,435) | (4,650,571) | (4,566,036) | (4,676,785) | (4,644,126) | (4,733,419) |
| AT SPRINT'S RATES PER END USER | | (3,186,595) | (4,083,957) | (4,897,960) | (4,803,890) | (4,904,700) | (4,861,968) | (4,941,332) |
| **USF/ICC GAP - AMOUNT NEEDED PER LINE PER MONTH FROM USF/CAF FUNDS** | | | | | | | | |
| AT ILEC'S RATES PER END USER | | $ (135.93) | $ (180.07) | $ (222.13) | $ (225.07) | $ (238.17) | $ (245.22) | $ (259.33) |
| AT AT&T'S RATES PER END USER | | (121.38) | (166.99) | (210.39) | (214.85) | (229.66) | (238.60) | (254.80) |
| AT SPRINT'S WIRELESS RATES PER END USER | | (132.58) | (178.18) | (221.59) | (226.04) | (240.85) | (249.79) | (265.99) |

(1) Rates Based on Customer Living in Kansas City Missouri.
(2) Includes both regulated and non-regulated expenses.
(3) Before a return on net investment (ICC = Intercarrier Compensation) In this context would include both TS and special access charges.

Data for Chart

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|
| AT ILEC'S RATES | $ (135.93) | $ (180.07) | $ (222.13) | $ (225.07) | $ (238.17) | $ (245.22) |
| AT AT&T'S RATES | $ (121.38) | $ (166.99) | $ (210.39) | $ (214.85) | $ (229.66) | $ (238.60) |
| AT SPRINT'S WIRELESS RATES | $ (132.58) | $ (178.18) | $ (221.59) | $ (226.04) | $ (240.85) | $ (249.79) |

## Wheat State Telephone, Inc.
## Projected Regulated Net Investment

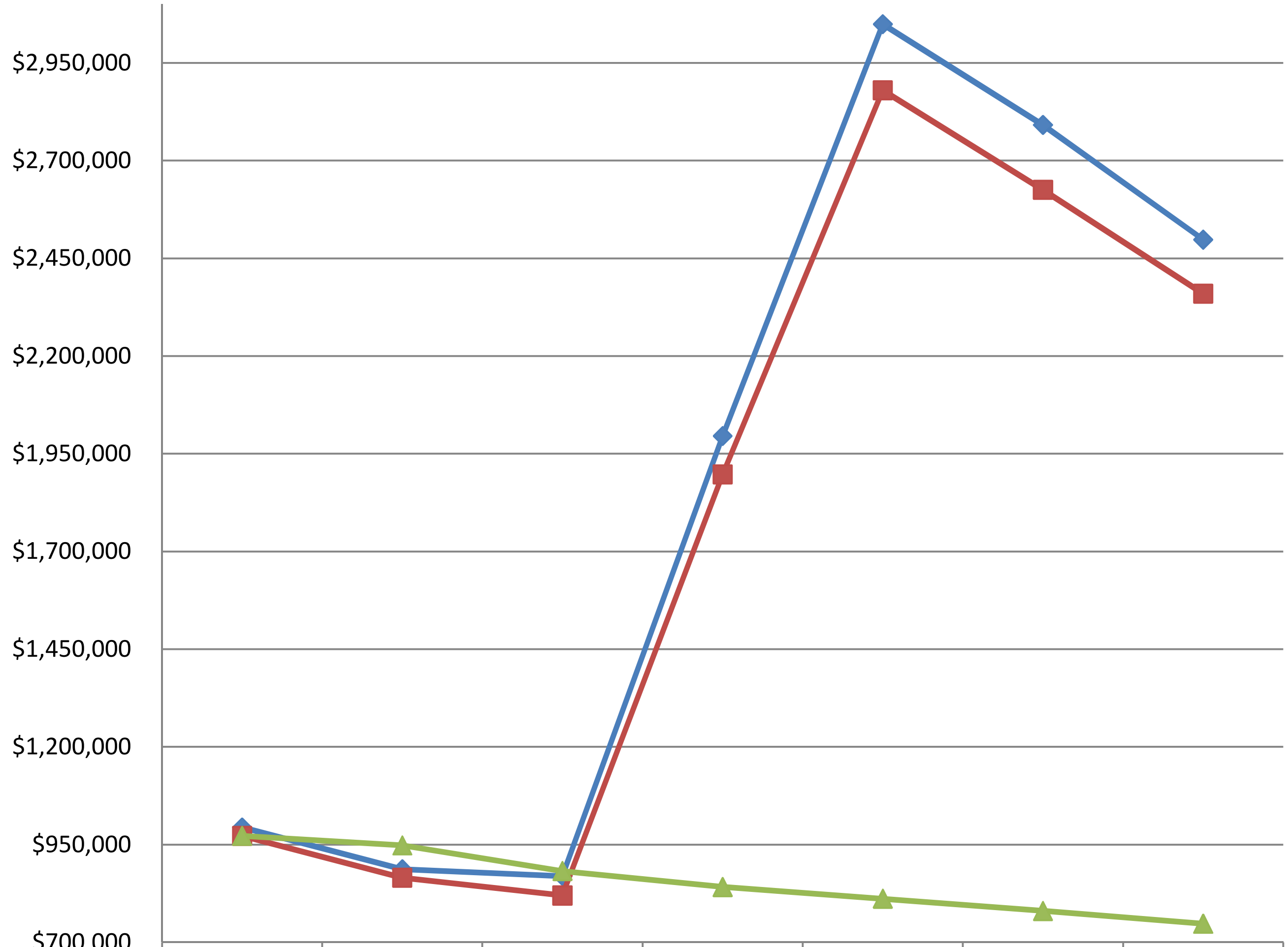



| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|---|
| Net Regulated Investment | $4,766,946 | $3,787,156 | $3,023,109 | $4,874,062 | $9,594,352 | $11,727,470 | $10,835,591 | 9,918,449 | 8,985,071 | 8,035,139 |

## Current Rules Cash Flow
## Projected Net Plant
### Current Rules Cash Flow
## D. Inputs to Calculate Net Rate Base Projections

| Line | Description | | YEAR : 2007 | YEAR : 2008 | YEAR : 2009 | YEAR : 2010 | YEAR : 2011 | YEAR : 2012 | YEAR : 2013 | YEAR : 2014 | YEAR : 2015 | YEAR : 2016 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Telephone Plant In Service:** | | | | | | | | | | | |
| LN 56 | General Support Facilities | | $3,168,793 | $2,792,183 | $2,843,935 | $2,840,406 | $2,840,406 | $2,840,406 | $2,859,342 | $2,868,634 | $2,877,926 | $2,887,217 |
| LN 57 | COE - Switching | | $3,495,019 | $3,499,674 | $3,457,355 | $3,498,130 | $3,511,722 | $3,511,722 | $3,519,260 | $3,527,106 | $3,534,952 | $3,542,798 |
| LN 58 | COE - Transmission | | $3,270,272 | $2,937,387 | $2,901,867 | $3,325,888 | $4,311,789 | $4,896,485 | $4,994,415 | $5,094,303 | $5,196,189 | $5,300,113 |
| LN 59 | C&WF | | $10,465,496 | $10,535,471 | $10,559,937 | $12,879,440 | $17,828,197 | $20,782,452 | $21,198,101 | $21,622,063 | $22,054,504 | $22,495,594 |
| LN 60 | **Telephone Plant In Service** (Sum of LNs 56 through 60): | | $20,399,580 | $19,764,715 | $19,763,094 | $22,543,864 | $28,492,114 | $32,031,065 | $32,571,117 | $33,112,106 | $33,663,571 | $34,225,723 |
| | **Accumulated Depreciation:** | | | | | | | | | | | |
| LN 61 | General Support Assets: | | $2,237,030 | $2,046,468 | $2,211,009 | $2,330,818 | $2,450,626 | $2,570,435 | $2,691,042 | $2,812,041 | $2,933,432 | $3,055,215 |
| LN 62 | COE - Switching | | $3,608,339 | $3,499,674 | $3,456,092 | $3,479,560 | $3,503,118 | $3,526,677 | $3,550,287 | $3,573,949 | $3,597,663 | $3,621,431 |
| LN 63 | COE - Transmission | | $2,709,923 | $2,874,584 | $2,862,852 | $2,910,307 | $2,971,829 | $3,041,694 | $3,112,956 | $3,185,643 | $3,259,784 | $3,335,408 |
| LN 64 | C&WF | | $7,077,342 | $7,556,833 | $8,210,032 | $8,949,118 | $9,972,189 | $11,164,789 | $12,381,242 | $13,622,023 | $14,887,620 | $16,178,529 |
| LN 65 | **Accumulated Depreciation (Sum of LNs 61 through 64):** | | $15,632,634 | $15,977,559 | $16,739,985 | $17,669,802 | $18,897,762 | $20,303,595 | $21,735,526 | $23,193,656 | $24,678,500 | $26,190,583 |
| LN 66 | **Net Telephone Plant In service (LN60 - LN 65)** | | $4,766,946 | $3,787,156 | $3,023,109 | $4,874,062 | $9,594,352 | $11,727,470 | $10,835,591 | $9,918,449 | $8,985,071 | $8,035,139 |

# Wheat State Telephone, Inc.
# Projected High Cost Loop Support

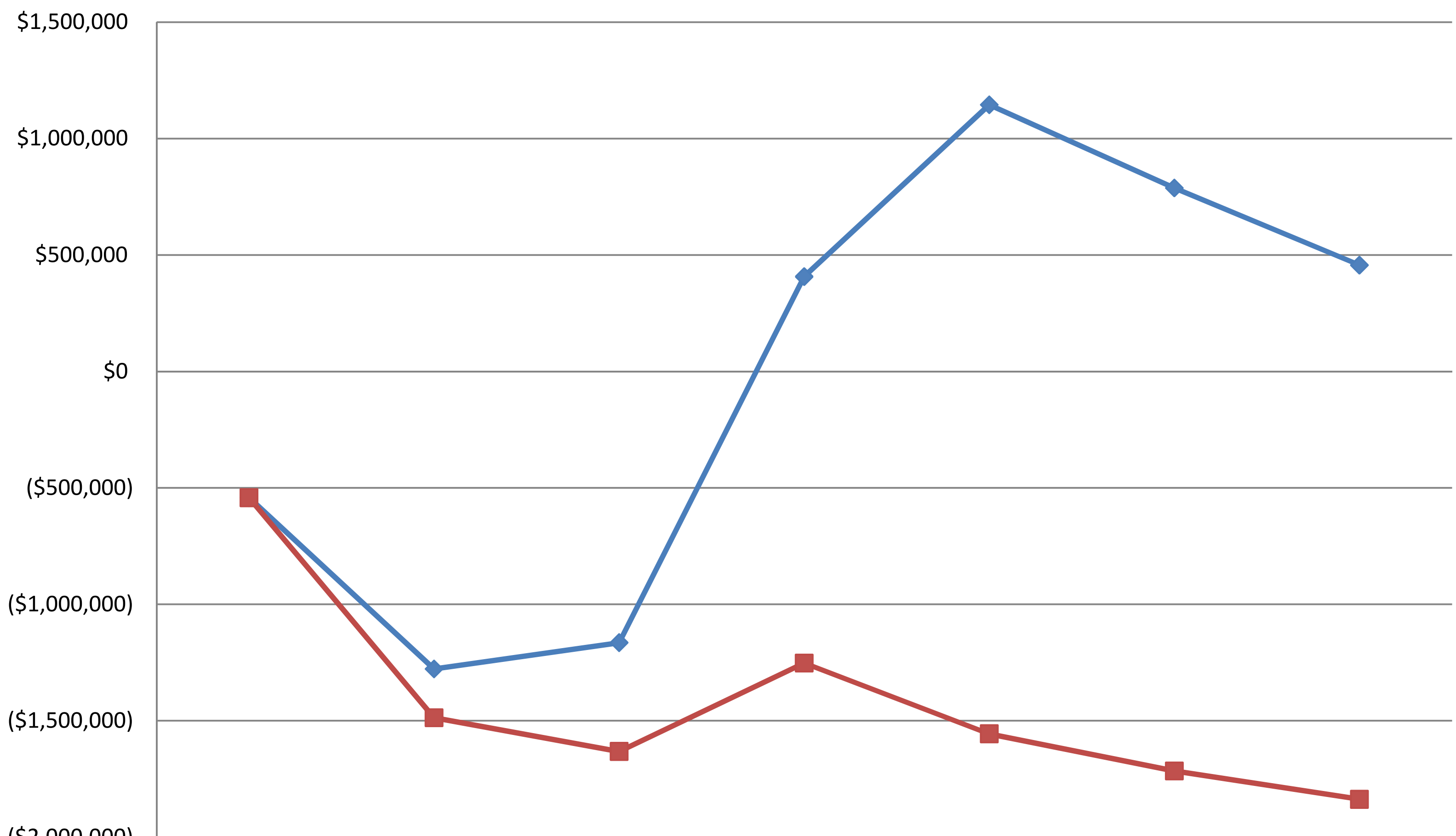



| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|
| HCL Support @ WGA Projected NACPL | $994,138 | $886,700 | $869,666 | $1,995,368 | $3,048,895 | $2,791,150 | $2,497,749 |
| HCL Support @ NACPL Projected by NECA | $972,370 | $865,513 | $819,744 | $1,897,246 | $2,880,121 | $2,625,513 | $2,359,482 |
| HCL Support if Amount/Line Frozen @ 2010 Level | $972,370 | $948,137 | $882,490 | $841,516 | $811,556 | $780,275 | $747,672 |

# PROJECTED HIGH COST LOOP SUPPORT

| *Current Rules Cash Flow* | USF Algorithms Source | 2007 Amount | 2008 Amount | 2009 Amount | 2010 Amount | 2011 Amount | 2012 Amount | 2013 Amount | 2014 Amount | 2015 Amount | 2016 Amount |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | PRELIMINARY | ESTIMATED | | | | | | |
| | Based on year-end data from: | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
| **USF HCLF Calculations Assuming Historical & Projected SACPL and Loops with NACPL as orginally estimated by WGA in 2010 NECA Forecasts or Round II BIP Projects** | | | | | | | | | | | |
| **Company Unseparated Cost Per Loop** | Ln. 26 | $ 1,096.73 | $1,177.79 | $ 1,204.55 | $1,094.27 | $1,092.44 | $1,160.86 | $2,013.77 | $2,866.68 | $2,800.00 | $2,700.00 |
| E (CR) | (based on CR pro | **335.32** | **354.43** | **382.97** | **412.54** | **453.81** | **486.31** | **518.81** | **551.31** | **583.81** | **616.31** |
| **Estimated Annual USF Support Payments (1)** | Ln. 31 | **$ 1,323,815** | **$ 1,440,801** | **$ 1,289,542** | **$ 994,138** | **$ 886,700** | **$ 869,666** | **$ 1,995,368** | **$ 3,048,895** | **$ 2,791,150** | **$ 2,497,749** |
| **Per Books or Amount to use for forecasted year** | | $ 1,413,073 | $ 1,425,577 | $ 1,281,527 | **$ 994,138** | **$ 886,700** | **$ 869,666** | **$ 1,995,368** | **$ 3,048,895** | **$ 2,791,150** | **$ 2,497,749** |
| **Monthly USF Support** | Ln. 32 | $ 117,756 | $ 118,798 | $ 106,794 | $ 82,845 | $ 73,892 | $ 72,472 | $ 166,281 | $ 254,075 | $ 232,596 | $ 208,146 |
| USF Loops (Includes Company Official) | Data Coll Ln. 70 | **2,538** | **2,549** | **2,304** | **2,207** | **2,152** | **2,003** | **1,910** | **1,842** | **1,771** | **1,697** |
| HCLF Support Change year over year | | | $ 116,986 | $ (151,259) | $ (295,403) | $ (107,438) | $ (17,034) | $ 1,125,702 | $ 1,053,527 | $ (257,745) | $ (293,401) |
| Cumulative Change 2008 to 2016 | | | | | | | | | | | $ 1,173,934 |
| **Change in HCLF USF Assuming Latest SACPL and Loops and Increased based on NECA's NACPL received June 4, 2010** | | | | | | | | | | | |
| **Company Unseparated Cost Per Loop** | Ln. 26 | $1,096.73 | $1,177.79 | $1,204.55 | $1,094.27 | $1,092.44 | $1,160.86 | $2,013.77 | $2,866.68 | $2,866.68 | $2,866.68 |
| Nationwide Average CPL (NECA growth estimates) | Ln. 27 | **344.26** | **363.10** | **388.98** | **423.53** | **464.78** | **514.08** | **576.05** | **653.40** | **743.74** | **846.38** |
| **Annual USF Support** | Ln. 31 | **$ 1,303,451** | **$ 1,420,966** | **$ 1,277,114** | **$ 972,370** | **$ 865,513** | **$ 819,744** | **$ 1,897,246** | **$ 2,880,121** | **$ 2,625,513** | **$ 2,359,482** |
| **Per Books or Amount to use for forecasted year** | | $ 1,413,073 | $ 1,425,577 | $ 1,281,527 | **$ 972,370** | **$ 865,513** | **$ 819,744** | **$ 1,897,246** | **$ 2,880,121** | **$ 2,625,513** | **$ 2,359,482** |
| **Monthly USF Support** | Ln. 32 | $ 117,756 | $ 118,798 | $ 106,794 | $ 81,031 | $ 72,126 | $ 68,312 | $ 158,104 | $ 240,010 | $ 218,793 | $ 196,623 |
| USF Loops | Data Coll Ln. 70 | **2,538** | **2,549** | **2,304** | **2,207** | **2,152** | **2,003** | **1,910** | **1,842** | **1,771** | **1,697** |
| Difference year over year | | | $ 117,515 | $ (143,852) | $ (304,744) | $ (106,857) | $ (45,769) | $ 1,077,502 | $ 982,875 | $ (254,607) | $ (266,032) |
| Cumulative Change 2008 to 2016 | | | | | | | | | | | $ 1,056,030 |
| Difference: HCLF using NECA's NACPL minus WGA's estimate | | $ - | $ - | $ - | $ (21,769) | $ (21,188) | $ (49,922) | $ (98,122) | $ (168,775) | $ (165,637) | $ (138,268) |
| Cumulative Change 2008 to 2016 | | | | | | | | | | | $ (663,680) |
| **HCL Support if Payment is Frozen at 2010 Levels per Loop** | | | | | | | | | | | |
| **Company Unseparated Cost Per Loop** | Ln. 26 | $ 1,096.73 | **$1,177.79** | **$1,204.55** | **$1,094.27** | **$1,092.44** | **$1,160.86** | **$2,013.77** | **$2,866.68** | **$2,866.68** | **$2,866.68** |
| Nationwide Average CPL | Ln. 27 | **344.26** | **363.10** | **388.98** | **423.53** | **464.78** | **514.08** | **576.05** | **653.40** | **743.74** | **846.38** |
| **Annual USF Support - Estimated** | Ln. 31 | **$ 1,303,451** | **$ 1,420,966** | **$ 1,277,114** | **$ 972,370** | **$ 948,137** | **$ 882,490** | **$ 841,516** | **$ 811,556** | **$ 780,275** | **$ 747,672** |
| **Per Books or Amount to use for forecasted year** | | $ 1,413,073 | $ 1,425,577 | $ 1,281,527 | **$ 972,370** | **$ 948,137** | **$ 882,490** | **$ 841,516** | **$ 811,556** | **$ 780,275** | **$ 747,672** |
| **USF Support Per Loop** | Ln. 32 | $ 556.77 | $ 559.27 | $ 556.22 | 440.58 | 440.58 | 440.58 | 440.58 | 440.58 | 440.58 | 440.58 |
| USF Loops | Data Coll Ln. 70 | **2,538** | **2,549** | **2,304** | **2,207** | **2,152** | **2,003** | **1,910** | **1,842** | **1,771** | **1,697** |
| Difference: algorithm with NECA NACPL vs freezing 2010 payment per loop | | $ - | $ - | $ - | $ - | $ 82,625 | $ 62,746 | $ (1,055,730) | $ (2,068,564) | $ (1,845,239) | $ (1,611,810) |
| Cumulative Change 2008 to 2016 | | | | | | | $ 145,371 | $ (992,984) | $ (3,124,295) | $ (3,913,803) | $ (3,457,049) |

# Wheat State Telephone, Inc.
## Cash Flow Projection
### (With ICLS Frozen, HCL, State and Interstate Access Reduced 10% Per Year)




| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|
| Current Rules Cash Flow | $(542,220) | $(1,277,905) | $(1,164,984) | $407,259 | $1,145,252 | $787,982 | $456,541 |
| NBP Cash Flow | $(542,220) | $(1,486,683) | $(1,631,715) | $(1,252,584) | $(1,555,863) | $(1,715,749) | $(1,837,243) |

**Wheat State Telephone, Inc.**
**Current Rules Cash Flow**

| | | | | | | Estimated for WGA | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| DR LN | DESCRIPTION | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| **A.** | **TOTAL REVENUE** | **$ 8,863,567** | **$ 6,574,984** | **$ 5,503,780** | **$ 5,218,551** | **$ 5,191,321** | **$ 5,233,932** | **$ 6,373,905** | **$ 7,197,623** | **$ 6,784,327** | **$ 6,522,659** |
| **B** | **TOTAL EXPENSES** | **$ 4,827,631** | **$ 4,764,724** | **$ 4,824,363** | **$ 5,077,744** | **$ 5,897,834** | **$ 6,655,337** | **$ 6,502,274** | **$ 6,541,600** | **$ 6,436,552** | **$ 6,454,486** |
| **C** | **Total Other Income (Not included)** | **$ (3,046,199)** | **$ (1,496,298)** | **$ (269,972)** | **$ (160,491)** | **$ (160,491)** | **$ (160,491)** | **$ (160,491)** | **$ (160,491)** | **$ (160,491)** | **$ (160,491)** |
| | **Adjusted Net Income** | **989,736** | **313,962** | **409,445** | **(19,684)** | **(867,004)** | **(1,581,897)** | **(288,860)** | **495,532** | **187,284** | **(92,318)** |
| **D** | **Audited Financials (2007 to 2009)** | **$ 989,736** | **$ 313,962** | **$ 402,750** | **$ (19,684)** | **$ (867,004)** | **$ (1,581,897)** | **$ (288,860)** | **$ 495,532** | **$ 187,284** | **$ (92,318)** |
| | **Interest Expense** | **58,253** | **35,666** | **45,746** | **81,189** | **509,544** | **1,071,158** | **1,022,663** | **969,438** | **913,870** | **854,736** |
| | **Regulated Depreciation Expense** | **1,015,833** | **771,407** | **858,265** | **1,000,817** | **1,298,960** | **1,476,833** | **1,502,931** | **1,529,130** | **1,555,844** | **1,583,083** |
| | **Non Reg Depreciation Expense** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **E** | **EBITDA** | **$ 2,063,822** | **$ 1,121,035** | **$ 1,306,761** | **$ 1,062,323** | **$ 941,500** | **$ 966,094** | **$ 2,236,734** | **$ 2,994,100** | **$ 2,656,998** | **$ 2,345,502** |
| | **Principle Payment on LT Debt** | **$ 1,281,643** | **$ 1,281,643** | **$ 1,377,296** | **$ 1,523,354** | **$ 1,709,861** | **$ 1,059,920** | **$ 806,812** | **$ 879,410** | **$ 955,146** | **$ 1,034,225** |
| | **Interest Expense** | **$ 58,253** | **$ 35,666** | **$ 45,746** | **$ 81,189** | **$ 509,544** | **$ 1,071,158** | **$ 1,022,663** | **$ 969,438** | **$ 913,870** | **$ 854,736** |
| | **Total Company Debt Service** | **$ 1,339,896** | **$ 1,317,309** | **$ 1,423,042** | **$ 1,604,543** | **$ 2,219,405** | **$ 2,131,078** | **$ 1,829,475** | **$ 1,848,848** | **$ 1,869,016** | **$ 1,888,961** |
| **F** | **Cash Flow for Investing** | **$ 723,926** | **$ (196,274)** | **$ (116,281)** | **$ (542,220)** | **$ (1,277,905)** | **$ (1,164,984)** | **$ 407,259** | **$ 1,145,252** | **$ 787,982** | **$ 456,541** |
| **G** | **Tier (Net Inc + Fixed Chgs) / Fixed Chgs** | **17.9903** | **9.8028** | **9.8040** | **0.7576** | **(0.7015)** | **(0.4768)** | **0.7175** | **1.5112** | **1.2049** | **0.8920** |
| **H** | **Covers Debt Service** | | | | no | no | no | yes | yes | yes | yes |

**Wheat State Telephone, Inc.**
**CASH FLOW IMPACT OF NATIONAL BROADBAND PROPOSAL**
Current Rules Cash Flow

| DR LN | DESCRIPTION | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **E (CR)** | **EBITDA (based on CR projections)** | $ 2,063,822 | $ 1,121,035 | $ 1,306,761 | $ 1,062,323 | $ 941,500 | $ 966,094 | $ 2,236,734 | $ 2,994,100 | $ 2,656,998 | $ 2,345,502 |
| | Remove ICLS | | | | (851,273) | (996,858) | (1,142,442) | (1,100,000) | (1,000,000) | (900,000) | (800,000) |
| | Remove HCLF | | | | (972,370) | (865,513) | (819,744) | (1,897,246) | (2,880,121) | (2,625,513) | (2,359,482) |
| | Remove State TS Access | | | | (199,971) | (196,193) | (192,490) | (188,862) | (185,306) | (181,821) | (178,406) |
| | Remove IS TS Access | | | | (139,479) | (136,689) | (133,955) | (131,276) | (128,651) | (126,078) | (123,556) |
| | Access & HCL phase down percentages - 10 years | | | | 100% | 90% | 80% | 70% | 60% | 50% | 40% |
| | Add ICLS using frozen $ per line (Exh II) | | | | 851,273 | 811,748 | 782,848 | 752,787 | 721,167 | 689,547 | 657,927 |
| | Phase down HCLF | | | | 972,370 | 875,133 | 777,896 | 680,659 | 583,422 | 486,185 | 388,948 |
| | Reflect State TS phased down 10% per year | | | | 199,971 | 176,574 | 153,992 | 132,203 | 111,183 | 90,910 | 71,362 |
| | Reflect IS TS Access phased down 10% per year | | | | 139,479 | 123,020 | 107,164 | 91,893 | 77,190 | 63,039 | 49,422 |
| | Adjusted EBITDA - NBP | | | | $ 1,062,323 | $ 732,722 | $ 499,362 | $ 576,891 | $ 292,985 | $ 153,267 | $ 51,718 |
| | **Total Company Debt Service** | | | | 1,604,543 | 2,219,405 | 2,131,078 | 1,829,475 | 1,848,848 | 1,869,016 | 1,888,961 |
| **F (NBP)** | **Cash Flow - NBP Adjusted** | | | | **$ (542,220)** | **$ (1,486,683)** | **$ (1,631,715)** | **$ (1,252,584)** | **$ (1,555,863)** | **$ (1,715,749)** | **$ (1,837,243)** |
| **H (NBP)** | **Covers Debt Service** | | | | no | no | no | no | no | no | no |